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**THE ASSOCIATION BETWEEN INTERNAL
GOVERNANCE MECHANISMS AND INTERNAL
AUDIT FUNCTION QUALITY: EVIDENCE FROM
MALAYSIA**



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UUM
Universiti Utara Malaysia

DOCTOR OF PHILOSOPHY
UNIVERSITI UTARA MALAYSIA
2020

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EVIDENCE FROM MALAYSIA**

By

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UUM
Universiti Utara Malaysia

Thesis Submitted to
Othman Yeop Abdullah Graduate School of Business,
Universiti Utara Malaysia
In Fulfillment of the Requirement for the Degree of Doctor of Philosophy



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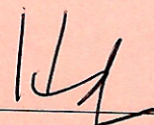
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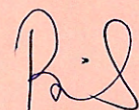
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ABSTRACT

The internal audit function (IAF) quality has been recognized as an importance corporate governance mechanisms in ensuring the credibility of financial reporting, preventing fraud, and accounting scandals. This study examines the relationship between internal corporate governance mechanisms; namely audit committee attributes, board attributes, and internal audit attributes; and IAF quality. Audit committee attributes are represented by audit committee chair financial expertise, audit committee chair overlap (workload in multiple committees), audit committee size and audit committee meetings frequency; board attributes are represented by board size and board independent while internal audit attributes are represented by internal audit sourcing arrangement and internal audit investment. Ordinary least squares and logistic regressions are used to test the relationship between the variables. This study employs Malaysian Top 100 non-financial public listed companies, based on market capitalisation in 2014. This study uses three criteria such as compliance with internal audit standards, existence of internal audit charter and adoption of risk-based internal audit plan as proxies for IAF quality. The findings reveal that audit committee chair financial expertise, audit committee chair overlap and board size have a significant influence on the overall IAF quality. In addition, audit committee chair financial expertise has a significantly positive influence on the adoption of risk-based Internal Audit plan, whereas audit committee chair overlap has a significantly negative influence on the existence of internal audit charter and compliance with internal audit standards. This study contributes to a better understanding of internal audit practices by Malaysian listed companies. The results of the study suggest that companies should improve IAF quality through internal corporate mechanisms in safeguarding their companies. This study allows policymaker to re-evaluate and reconsider adopting the original recommendation proposed in Malaysian Code on Corporate Governance 2016 pertaining to audit committee chair financial expertise

Keywords: Internal audit function (IAF) quality, internal audit standard, internal audit charter, risk-based audit, audit committee chair

ABSTRAK

Fungsi audit dalaman (IAF) berkualiti telah diiktrafkan sebagai mekanisme tadbir urus korporat yang penting bagi memastikan kredibiliti laporan kewangan, mencegah penipuan dan skandal perakaunan. Kajian ini adalah untuk menyelidik hubungan antara mekanisme tadbir urus korporat dalaman iaitu ciri-ciri jawatankuasa audit, ciri-ciri lembaga pengarah, ciri-ciri audit dalaman dan kualiti IAF. Ciri-ciri jawatankuasa audit diwakili oleh kepakaran kewangan pengerusi jawatankuasa audit, pengerusi pertindihan jawatankuasa audit (beban tugas dan kepelbagaian jawatankuasa), saiz jawatankuasa audit dan kekerapan mesyuarat jawatankuasa audit; ciri-ciri lembaga pengarah diwakili oleh saiz lembaga dan kebebasan lembaga manakala, ciri-ciri audit dalaman diwakili oleh kedudukan sumber dan pelaburan dalam audit dalaman. OLS dan regresi logistik digunakan untuk menguji hubungan antara kualiti IAF dan pemboleh ubah. Kajian ini menggunakan 100 buah syarikat bukan kewangan utama Malaysia berasas modal pasaran pada tahun 2014. Kajian ini menggunakan tiga ciri iaitu pengaplikasian piawaian audit dalaman, kewujudan piagam audit dalaman dan penerapan audit dalaman berdasarkan risiko sebagai proksi untuk menentukan kualiti IAF. Dapatan kajian menunjukkan bahawa kepakaran kewangan pengerusi jawatankuasa audit, pertindihan pengerusi jawatankuasa audit dan saiz lembaga pengarah mempunyai pengaruh yang penting terhadap kualiti IAF. Tambahan pula, kepakaran kewangan pengerusi jawatankuasa audit mempunyai pengaruh positif yang signifikan terhadap penerapan pelan audit dalaman berasaskan risiko, manakala pertindihan pengerusi jawatankuasa audit mempunyai pengaruh yang negatif terhadap kewujudan piagam audit dalaman dan pematuhan piawaian audit dalaman. Kajian ini menyumbang kepada pemahaman yang lebih baik mengenai amalan tadbir urus korporat oleh syarikat awam yang tersenarai di Malaysia. Hasil kajian ini mencadangkan syarikat perlu meningkatkan kualiti IAF melalui mekanisme tadbir urus korporat dalaman untuk melindungi keutuhan syarikat. Kajian ini membantu penggubal polisi untuk menilai semula serta mengambil kira cadangan asal untuk menerima pakai apa yang telah diusulkan dalam “Malaysian Code on Corporate Governance” (MCCG) 2016 berkaitan dengan kepakaran kewangan pengerusi jawatankuasa audit.

Kata kunci: Kualiti IAF, piawaian audit dalaman, piagam audit dalaman, audit dalaman berdasarkan risiko, pengerusi jawatankuasa audit

ACKNOWLEDGEMENTS

In the name of Allah, the most gracious and the most merciful.

Praise be to Allah, the Lord of the world and prayers and peace upon Mohammed, His servant and Messenger for the strength and endurance provided to me to complete this thesis.

I would like to express my heartfelt appreciation and gratitude to my main supervisor, Prof. Dr. Wan Nordin Wan Hussin, for his guidance, advice, enthusiasm, immense knowledge and continuous support to finish up this thesis. Without his guidance and persistent help, this thesis would not have been completed successfully. I would also like to extend my thanks and appreciation to my co-supervisor, Dr. Basariah Salim for all her assistance provided to me during the course of my research.

I wish to express my deep gratitude to Assoc. Prof. Dr. Selamah Maamor, Dr. Mohd Atef Md Yusof, and Assoc. Prof. Dr. Lim Hock Eam for their valuable comments and suggestions. Also, I am very thankful to my internal reviewers, Assoc. Prof. Dr. Faudziah Hanim Fadzil, external reviewers, Prof. Dr. Ahmad Zulkarnain Muhamad Sori and the chairman of the VIVA session, Assoc. Prof. Dr. Zaleha Othman, for their invaluable comments that greatly improve this thesis and also my deep gratitude to the UUM lecturers who provide me invaluable knowledge.

I would like to express my never-ending love, appreciation and gratitude to my dearest late father, Drs. Rosman Yunus MA and my mother, Fauziah Zaar. I dedicate this work to both of them, without whom I could not do anything in my life. May Almighty Allah reward them with the best paradise. Also, my deepest thanks to my dear sister, Syukriani Yulia BSBA. MBA. for her understanding the hard times during the journey of Ph.D and for her moral and material assistance. My sincere thanks to my friends, Dr. Randa Mohammed Shams Addin Al-Mawshaki, Dr. Asma, Dr. Maha, Dr. Etri, Dr. Irene and all my friends who always give me support and encouragement. Lastly, my thanks to Universitas YARSI for financial support and its entire staff members for their support.

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LIST OF ABBREVIATIONS

AC	Audit Committee
ACCA	Association of Chartered Certified Accountants
ACSIZE	Audit Committee Size
ACMEET	Audit Committee Meeting Frequency
ASX	Australian Stock Exchange
BINDP	Board Independent
BOD	Board of Director
BODSIZE	Board Size
BRC	Blue Ribbon Committee
CBOK	Common Body of Knowledge
CIA	Certified Internal Accountant
CIMA	Chartered Institute of Management Accountants
CPA	Certified Public Accountant
IA	Internal Auditing
IAF	Internal Audit Function
IAFCHARTER	Internal Audit Function Have Charter
IAFCOMPOSITE	Internal Audit Function Composite Score of IAFSTANDARD, IAFCHARTER and IAFRISK
IAFRISK	Internal Audit Function Adopt Risk-Based
IAFSTANDARD	Internal Audit Function Follow Standard
ICAEW	Institute of Chartered Accountants in England and Wales
IAS	Internal Audit Standard
IASOURCE	Internal Audit Sourcing Arrangement
IIA	Institute of Internal Auditors
IIAM	Institute of Internal Auditors Malaysia
IPPF	International Professional Practices Framework
ISPPIA	International Standards for the Professional Practice of Internal Auditing
LNINV	Natural Log of Investment in Internal Audit
LNMKTCAP	Natural Log of Market Capitalization
MCCG	Malaysian Code on Corporate Governance
MIA	Malaysian Institute of Accountant
MICPA	Malaysian Institute of Certified Public Accountant
NC	Nomination Committee
OECD	Organization for Economic Co-Operation and Development
OLS	Ordinary Least Squares
PCAOB	Public Companies Accounting Oversight Board
PLC	Public Listed Companies
PWC	PricewaterhouseCoopers
RC	Remuneration Committee
SOX	Sarbanes-Oxley Act
SEC	Securities and Exchange Commission

TDEBT TA
UK
USA

Leverage
United Kingdom
United State of America



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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Internal audit (IA) is one of the internal corporate governance mosaics, and an integral component of the corporate governance fabric, which has been playing a crucial role ever since the tragic collapses and massive losses of giant companies all over the world (Cohen, Krishnamoorthy & Wright, 2004; Lenz, Sarens & Jeppesen, 2018; Mihret & Grant, 2017; Prawitt, Sharp & Wood, 2011; Prawitt, Smith & Wood, 2009). These corporate collapse have captured the attention of regulators, investors and academicians and triggered the need to seriously improve the corporate governance system in both developed and developing countries. It is therefore crucial that the internal auditor ensures good governance practices to protect the interests of shareholders and stakeholders, and assist organizations in achieving their objectives.

Good corporate governance is a central issue in the global economy. The numerous corporate failures, scandals and global financial crises have resulted in the loss of investors' confidence in the integrity of corporate organizations (PricewaterhouseCoopers, 2011). A slew of business scandals continues to plague the world, as evinced in the United States of America (USA) (Enron in 2001; WorldCom in 2001; Lehman Brothers in 2008; AIG in 2008), Australia (One. Tel in 2001; HIH group in 2001), the United Kingdom (UK) (Northern Rock in 2008; Royal Bank of

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APPENDIX A

Annual Report of three companies disclosed in their annual reports that their IAF follow standards, have charters, use risk-based approach and are reviewed by third parties

1) Felda Global Venture Holding Berhad (FGV)

4. Reviewing the Internal Audit Process

Reviewed and approved the revision of the Group Internal Audit Charter for clarity of the purpose, authority and responsibility of Group Internal Audit.

Reviewed the Annual Group Internal Audit plan, which was prepared on a priority ranking system based on a risk assessment of the audit universe to provide sufficient audit coverage.

Reviewed the adequacy of competency and resources of Group Internal Audit to execute the Annual Group Internal Audit Plan, including monitoring the progress of recruitment for vacant positions.

Reviewed the reports issued by Group Internal Audit on the effectiveness and adequacy of governance, risk management and control processes.

Reviewed the monitoring of the resolution of issues and recommendations from reports issued by the Management Audit Committee.

Reviewed the outcome of investigations, including investigative reports arising from whistleblowing complains, and monitored the progress and outcome of action taken by the Management on confirmed misconduct, fraud and non-compliances.

Reviewed the report on the External Quality Assurance Review by the Institute of Internal Auditors (IIA) Malaysia on the conformity to IIA's International Standards for the Professional Practice of Internal Auditing, efficiency and effectiveness in carrying out its mission and opportunities to enhance Group Internal Audit's role.

Summary of activities of Group Internal Audit

The FGV Group has an in-house Group Internal Audit function, which is independent and reports functionally direct to the Audit Committee and administratively to the Group President/Chief Executive Officer. The conduct of Group Internal Audit is based on a Group Internal Audit Charter, which is established consistent with the requirements of the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing and approved by the Audit Committee.

2) Malaysia Airports Holdings Berhad

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D. INFORMATION AND COMMUNICATION

Information and Communication support all other control components by communicating control responsibilities to employees and by providing information in a form and time frame that allows people to carry out their responsibilities. Relevant key activities within the Group include:

i. Communication Policy

MAHB Group is committed to open and effective communication as an essential component of its culture in order to motivate the workforce to deliver high quality service and exceptional value to customers and other stakeholders as well as to anticipate their feedback. Communication with all stakeholders consist of both one-way and two-way communication and is conducted through a variety of platforms. Among the platforms established are MAHB Portal; K-Office; Town Halls; and Chat and Bite Sessions with senior management team for internal communication, as well as Convergence magazine; Airlink portion in KL lifestyle magazine; Facebook; Twitter; YouTube; Mobile Apps; KLIATV; websites; annual reports; and media and analysts briefing sessions for external communication. A Corporate Communication Policy is in place to guide the overall communication practices within the organisation as well as with external parties and media. This is to ensure that communication across the Group and beyond is well coordinated, effectively and strategically managed and meets the diverse needs of the organisation.

E. MONITORING

i. Management Committees

- Two Top Level Committees are established, namely Executive Committee (EXCO) and Management Committee (MC), each with clear demarcation of roles in managing the Group's strategic and operational matters more effectively.

2014 sees the creation of another Top Level Committee, the Human Resources Committee - an extension of the EXCO to specifically discuss human resource-related issues.

- At Group level, the Internal Audit Management Committee (IAMC) is established to review all audit findings before being tabled at the BAC.

Other steering committees responsible to ensure effective supervision over related key operational areas are:

Information Security Management System (ISMS) Steering Committee
ICT Steering Committee
Technical Committee
Management Procurement Committee
Value Management related Committees (Approval, Procurement Activities and System & Procedure)
SMS-Safety Action Group Committee
ASQ Working Group Committee
Corporate Risk Management Committee

ii. Group Internal Audit

Audit Division carried out ongoing internal audit of the Group. It also assists in promoting effective risk management at the lines of business. The audits conducted are in the areas of finance/accounts, operations, management, projects, information systems and investigation in accordance with the approved Risk-Based Audit Plan. The Internal Audit Division also undertakes special

STATEMENT ON RISK MANAGEMENT AND INTERNAL CONTROL

to monitor the status of internal control issues raised. The Internal Audit Division continues review of Self Audits i.e. Internal Control Questionnaire (ICQ) at airports and Control-Self Assessment (CSA) at HQ function. Both the ICQ and CSA provide Management with an easy to use and effective tool to review and improve the control system.

Based on the External Quality Assessment conducted by the Institute of Internal Auditors Malaysia in 2013, the Internal Audit Division achieved overall Conformance to the International Standards for the Professional Practice of Internal Auditing. The Internal Audit practices and conduct are governed by its Internal Audit Charter. The Internal Audit Division reports directly to the Board Audit Committee. The Key Performance Indicators (KPIs) of the Head of the Internal Audit Division are approved by the Board Audit Committee.

iii. Other Internal Assurance Providers (IAP)

ASSURANCE BY MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER

In relation to the risk management process, the Managing Director and Chief Financial Officer to the best of their ability and knowledge confirms that the Company's risk management and internal control system is operating adequately and effectively as at 31 December 2014.

CONCLUSION BY THE BOARD OF DIRECTORS

The Board considers the system of risk management and internal controls described in this statement to be satisfactory and has not resulted in any material loss, contingency or uncertainty and that the risks are at an acceptable level within the context of the Group's business environment. The Board and Management will continue to take measures to strengthen the control environment and monitor the risk management and

3) Digi.Com Berhad

a) Internal Audit Function

The internal audit function carried out by the Assurance Department assists both the Board and the Audit & Risk Committee by conducting appropriate reviews of key business processes to assess the adequacy and effectiveness of internal control and risk management, compliance with regulations, and the Group's policies and procedures. To ensure independence from Management, the Head of Assurance reports directly to the Audit & Risk Committee. The Assurance Department's practices and conduct are governed by the Assurance Charter, which is subject to review and approval on an annual basis by the Audit & Risk Committee.

The Audit Plan is developed based on a risk-based approach and is approved by the Audit & Risk Committee annually. The status of the Audit Plan is presented to the Audit & Risk Committee on a quarterly basis.

The audit reports, including significant findings and recommendations for improvements, and management's responses to the recommendations are highlighted to DMT and, on a quarterly basis reported to the Audit & Risk Committee. Adequate measures and actions by management to address improvement areas highlighted are followed-up and reviewed on a quarterly basis.

The Assurance Department also maintains a quality assurance and improvement programme and continuously monitors its overall effectiveness. The Assurance Department underwent a Quality Assurance Review by the Institute of Internal Auditors Malaysia and was judged to have fully met the requirements set by the International Institute of Internal Auditors.

The Board has also received assurance from the CEO and CFO that Digi's risk management and internal control is operating adequately and effectively, in a material aspects, based on Digi's risk management and internal control system.

Annual Report of Four Companies that outsourced the IAF and disclose that they use risk-based audit approach

1. Scomi Energy

Scomi Energy Services Bhd Annual Report 2014

During the financial year ended 31 March 2014, a total of five (5) meetings were held on 20 May 2013, 15 July 2013, 20 August 2013, 18 November 2013 and 19 February 2014 respectively. A quorum, established by the presence of the majority of members who are independent directors, was met at all times.

Summary Of Activities For The Year

The following activities were carried out by the ARMC in the financial year ended 31 March 2014 in the performance of its

- (h) reviewed the quarterly results and annual financial reports of the Group prior to submission to the Board for their consideration and approval;
- (i) reviewed the annual internal audit plan and scope of work for the year for the Group and the Company;
- (j)
- (k) reviewed the internal audit reports, which incorporated audit

Internal Audit Function

The Group's internal audit function is outsourced to two external professional services firms to cover the Marine Services Division and Oilfield Services Division during the financial year under review. Both of the professional services firms are independent of management and operations ("the Outsourced Internal Audit Functions"). The Outsourced Internal Audit Functions undertake independent and planned reviews of the system of internal control so as to provide the necessary feedback on the adequacy and integrity of the system.

2. Amway

AUDIT COMMITTEE REPORT

Committee's primary responsibilities, including details of relevant training attended by each Committee member; and any other activities, as authorised by the Board.

The Chairman of the Committee shall engage on a continuous basis with Senior Management, such as the Managing Director, Chief Financial Officer, the head of internal audit and the external auditors in order to be kept informed of matters affecting the Group.

MEETINGS

During the financial year ended 31 December 2014, four (4) meetings were held and details of attendance of members are as follows:

Members	Number of Meetings Attended
Dato' Ab. Halim Bi. Mohyiddin Chairman, Senior Independent Non-Executive Director	4/4
Scott Russell Balfour Non-Independent Non-Executive Director	4/4
Prof Datuk Dr. Nik Mohd Zain Bin Nik Yusof Independent Non-Executive Director	4/4
Tan Sri Dato' Cecil Wiltbert Mahanaraj Abraham Independent Non-Executive Director	4/4
Tan Sri Faizah Binti Mohd Tahir Independent Non-Executive Director - appointed on 6 May 2014	2/2
Eva Cheng Li Kam Fun Independent Non-Executive Director - resigned on 6 May 2014	2/2

The Executive Directors, Senior Management, external and internal auditors were in attendance at the meetings, upon invitation by the Committee, to brief the members on specific issues. The Committee had also met with the external and internal auditors separately on two occasions without the presence of the Executive Directors and Senior Management to discuss the audit findings and any other concerns or observations they may have during the audit.

The Board assessed the performance of the Committee and its members through an annual Audit Committee evaluation and is satisfied that the Committee and its members have been able to discharge their functions,

deliberated the internal audit reports prepared by KPMG Management & Risk Consulting Sdn. Bhd., an independent professional services firm, which highlighted the aud observations, recommendations and Management's response. Discussed with Management the actions taken to improve the internal controls based on improvement opportunities identified in the internal audit reports; reviewed the effectiveness of the risk management framework and internal control system; reviewed the risk assessment reports from the Risk Management Committee. Significant risk issues were summarised and communicated to the Board for consideration and resolution; reviewed the audited financial statements of the Group and Company with the external auditors prior to submission to the Board for their consideration and approval; reviewed the quarterly unaudited financial results for announcements to Bursa Securities as well as declaration of dividends before recommending them to the Board for approval; reviewed the related party transactions entered into by the Group to ensure compliance with the Listing Requirements of Bursa Securities; and reviewed the Annual Strategic Plan, the Operating and Capital Expenditure Budget for the year 2015.

AUDIT COMMITTEE TRAINING AND EDUCATION

During the year, the Committee members have attended the relevant development and training programmes as well as conferences relating to areas of finance, tax, corporate governance, risk management, leadership, legal, business intelligence, industry and regulatory developments to enhance their knowledge to enable them to discharge their duties more effectively.

INTERNAL AUDIT FUNCTION

The internal audit function of the Group is supported by the Internal Audit Charter and is outsourced to an independent professional services firm, namely KPMG Management & Risk Consulting Sdn. Bhd., to carry out internal audit on the Group. The Head of Internal Audit reports directly to the Committee. Internal audit reports are presented, together with Management's response and proposed action plans, to the Committee quarterly.

3. MKH Berhad

Statement on Corporate Governance

PRINCIPLE 6: RECOGNISE AND MANAGE RISKS (continued)

Risk Management Committee (continued)

The objective of the engagement is to assist the Board and Management of the Group and PTKAM to further strengthen its risk management and internal controls.

The Internal Audit Function And Its Role

To assist the Audit Committee in assessing the adequacy and integrity of the Group's system of risk management and internal controls, the Company outsourced its internal audit function to KPMG Management & Risk Consulting Sdn Bhd, an independent professional firm which reports directly to the Audit Committee.

The principal role of the internal audit function is to undertake, on a prioritized approach, an independent and systematic assessment of the Group's system of risk management and internal controls as established by Management in addressing the principal business risks faced by the Group. In conducting internal audit of the Group, the internal audit function employed professional standards promulgated by the Institute of Internal Auditors. During the financial year under review, weaknesses noted in the said system and areas that required improvement, including the recommendations thereof and action plans agreed to be deployed by Management to address the issues raised, were highlighted by the internal audit function by way of internal audit reports issued to the Audit Committee.

4. 7-Eleven Berhad

AUDIT COMMITTEE REPORT

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Summary of Activities of Audit Committee

review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit function;

review the internal audit plan, consider the internal audit reports and findings of the internal auditors, fraud investigations and actions and steps taken by Management in response to audit findings;

review any appraisal or assessment of the performance of members of the internal audit function;

approve any appointment or termination of internal auditors;

to consider any related party transactions and conflict of interest situation that may arise within the Company or the Group including any transaction, procedure or course of conduct that raises questions of management integrity;

to report its findings on the financial and management performance, and other significant matters to the Board;

to consider the major findings of internal investigations and Management's response;

to monitor the integrity of the Company's financial statements;

to monitor the performance of the internal audit function;

to monitor the Company's compliance with relevant laws, regulations and code of conduct;

to review the adequacy and effectiveness of risk management, internal control and governance systems;

to review the Company's procedures for detecting fraud and whistle blowing;

to consider and examine such other matters as the Audit Committee considers appropriate; and

to consider any other matters as delegated by the Board.

Summary of Activities of Audit Committee

The activities of the Audit Committee carried out, during the financial year and up to the date of this Report, in relation to its duties and responsibilities are as follows:

reviewed the audit plan with the External Auditors;

reviewed the annual audited financial statements and principal matters arising from audit with the External Auditors;

reviewed the quarterly financial results before recommending of the same to the Board for consideration and approval for release to Bursa Securities;

reviewed the Enterprise Risk Management report, including the Group's risk profile, issued by an independent professional firm engaged by the Company to assist the Board to establish a formal risk management framework within the Group – such a framework is aimed to assist Management in the identification, evaluation and control of principal business risks faced in the Group's operation for onward reporting to and monitoring by the Audit Committee and the Board such that risks are being managed to acceptable levels based on the risk appetite of the Board;

reviewed internal audit report and including Management's response to the observations raised by the internal audit function, including action plans to be implemented by Management on the issues reported; and

reviewed related party transactions of the Group.

Summary of Internal Audit Activities

The internal audit function is outsourced to an independent professional firm, namely KPMG Management & Risk Consulting Sdn. Bhd., which reports directly to the Audit Committee. The internal audit function carried out its work, taking into consideration the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors, Inc.

APPENDIXB

The List of Selected Firms

No	Company Name
1	7 Eleven
2	AEONCO.(M)
3	AIRASIA
4	Air Asia X
5	AMWAY (MAL.) HDG.
6	ASTRO MALAYSIA HOLDINGS
7	AXIATA GROUP
8	BATUKAWAN
9	BERJAYACORP
10	BERJAYALAND
11	BERJAYA SPORTS TOTO
12	BERMAZAUTO
13	BINTULU PORT HOLDINGS
14	BOUSTEAD HOLDINGS
15	BOUSTEAD PLANTATIONS
16	BRIT.AMER.TOB.(MALAYSIA)
17	BUMI ARMADA
18	CAHYA MATA SARAWAK
19	CARLSBERG BREWERY MAL.
20	DAYANG ENTER.HDG.
21	DIALOG GROUP
22	DIGI.COM
23	DRB-HICOM
24	DUTCH LADY MILK
25	EASTERN & ORIENTAL
26	FELDA GLOBAL VENT.HDG.
27	FRASER & NEAVE HOLDINGS
28	GAMUDA
29	GAS MALAYSIA
30	GD EXPRESS CARRIER
31	GENTING- BERHAD
32	GENTING MALAYSIA
33	GENTING PLANTATIONS
34	GUINNESS ANCHOR
35	HAP SENG CONSOLIDATED
36	HAP SENG PLTNS.HDG.
37	HARTALEGA HOLDINGS
38	HONG LEONG INDUSTRIES
39	IGB Copro
40	IHH HEALTHCARE
41	IJMCORP

42 IIM PLANTATIONS
 43 IOI CORPORATION
 44 IOI PROPERTIES GROUP
 45 JAYA TIASA HOLDINGS
 46 KECK SENG (MALAYSIA)
 47 KOSSAN RUBBER
 48 KPJHEALTHCARE
 49 KUALA LUMPUR KEPONG
 50 LAFARGE MALAYSIA
 51 LINGKARAN TRANS KOTA HDG.
 52 MAGNUM
 53 MAH SING GROUP
 54 MALAYSIA AIRPORTS HDG.
 55 MALAYSIA MAR.& HVY.ENGR.
 56 HDG.
 57 MALAYSIAN RES. CORP Bhd
 58 MAXIS
 59 MEDIA CHINESE INTL.(KLS)
 60 MEDIA PRIMA
 61 MISCBHD.
 62 MKH
 63 MMC
 64 MSM MAL.HOLDINGS
 65 MY EG Services
 66 NESTLE (MALAYSIA)
 67 ORIENTAL HOLDINGS
 68 PARKSON HOLDINGS
 69 PETRONAS CHEMICALS GP.
 70 PETRONAS DAGANGAN
 71 PETRONAS GAS
 72 POS MALAYSIA
 73 PPB GROUP
 74 PRESS METAL
 75 QL RESOURCES
 76 SAPURA-KENCANA PETROLEUM
 77 SARAWAK OIL PALMS
 78 SCOMI ENERGY SERVICES
 79 SELANGOR PROPERTIES
 80 SHANGRI-LA HOTELS (MAL.)
 81 SIME DARBY
 82 SPSETIA
 83 STAR MEDIA GROUP
 84 SUNWAY Bhd
 85 TAN CHONG MOTOR HOLDINGS
 86 TASEK
 87 TELEKOM MALAYSIA

- 87 TENAGA NASIONAL
- 88 TIMEDOTCOM
- 89 TOP GLOVE
- 90 TSH RESOURCES
- 91 UEMSUNRISE
- 92 UMW HOLDINGS
- 93 UMW OIL & GAS
- 94 UNITED PLANTATIONS
- 95 UOA DEVELOPMENT
- 96 WCT HOLDINGS
- 97 WESTPORTS HOLDINGS
- 98 YINSON HOLDINGS
- 99 YTL Corporation Berhad
- 100 YTL POWER INTERNATIONAL



APPENDIXC

DESCRIPTIVES VARIABLES=IAFSTANDARD IAFCHARTER IAFRISK IAFCOMPOSITE						
ACHRFEXP ACHROVLAP ACSIZE ACMEET BODSIZE BINDP IASOURCE LNINV LNMKTCAP						
TDEBT_TA						
/STATISTICS=MEAN STDEV MIN MAX.						
Descriptives						
Descriptive Statistics						
	N	Minimum	Maximum	Mean	Std. Deviation	
IAFSTANDARD	100	0	1	.34	.476	
IAFCHARTER	100	.00000	1.00000	.4400000	.49888765	
IAFRISK	100	.00000	1.00000	.7400000	.44084400	
IAFCOMPOSITE	100	.00000	1.00000	.5066667	.51240711	
ACHRFEXP	100	.0000	1.0000	.660000	.4760952	
ACHROVLAP	100	.0000	2.0000	1.390000	.8027101	
ACSIZE	100	3.000	6.000	3.48000	.717459	
ACMEET	100	2	15	5.29	1.816	
BODSIZE	100	5	14	8.70	1.920	
BINDP	100	.30000	.77778	.4741486	.11080165	
IASOURCE	100	0	1	.86	.349	
LNINV	100	9.61581	17.60197	13.8034494	1.46270691	
LNMKTCAP	100	14.24005	18.06212	15.5575952	1.03010746	
TDEBT_TA	100	.0000	63.0200	24.155300	16.9249144	
Valid N (listwise)	100					

FREQUENCIES VARIABLES=IAFSTANDARD IAFCHARTER IAFRISK IAFCOMPOSITE ACHRFEXP ACHROV
ACMEET BODSIZE BINDP IASOURCE INVESTMENTIAF LNINV MKTCAP LNMKTCAP TDEBT_TA
/FORMAT=NOTABLE
/STATISTICS=STDDEV MINIMUM MAXIMUM MEAN MEDIAN SKEWNESS SESKEW KURTOSIS SEKURT
/ORDER=ANALYSIS.

Frequencies

	IAFSTANDAR	IAFCHARTER	IAFRISK	IAFCOMPOSITE	ACHRFEXP	ACHROV	ACMEET	BINDP	IASOURCE	INVESTMENTIAF	LNINV	MKTCAP	LN
Valid N (listwise)	100	100	100	100	100	100	100	100	100	100	100	100	100
Mean	0.34	0.44	0.74	0.50667	0.10666	1.39	5.29	8.7	0.86	260789.4	13.8	105654.84	10
Median			1	0.555	1		5	8.5	1	988881	13.8	413240.5	10
Std. Deviation	0.476	0.499	0.441	0.312407	0.476	0.8027	1.816	1.92	0.349	5311848.6	1.46	144098.47	3
Skewness	0.686	0.245	1.111	0.054	-0.686	-0.828	2.075	0.491	-2.107	5.65	0.27	2.341	0.24
Std. Error of Skewness	0.241	0.241	0.241	1	0.241	0.241	1	1	0.241	0.241	0.31	5.1	0.478
Kurtosis	0.1561	0.198	0.782	-0.858	0.561	0.939	8.143	0.227	2.488	39.457	0.47	152888.8	17.6
Std. Error of Kurtosis	0.478	0.478	0.478	0.478	0.478	0.478	0.478	0.478	0.478	1	9.61	698679.06	0.6
Minimum	1	1	1	1	1	1	2	5	1	44100000	17.6	698679.06	0.6
Maximum							15	14	1	44100000	17.6	698679.06	0.6

REGRESSION

/MISSING LISTWISE
 /STATISTICS COEFF OUTS R ANOVA
 /CRITERIA=PIN(.05) POUT(.10)
 /NOORIGIN
 /DEPENDENT IAFCOMPOSITE
 /METHOD=ENTER ACHRFEXP ACHROVLAP ACSIZE ACMEET BODSIZE BINDP IASOURCE LNINV
 LNMKTCAP TDEBT_TA.

Regression

Variables Entered/Removed^a

Model	Variables Entered	Removed	Method
1	TDEBT_TA, ACSIZE, ACHROVLAP, ACHRFEXP, IASOURCE, ACMEET, BINDP, LNMKTCAP, BODSIZE, LNINV ^b		Enter

a. Dependent Variable: IAFCOMPOSITE

b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.603 ^a	.363	.292	.26295750

a. Predictors: (Constant), TDEBT_TA, ACSIZE, ACHROVLAP, ACHRFEXP, IASOURCE, ACMEET, BINDP, LNMKTCAP, BODSIZE, LNINV

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.508	10	.351	5.074	.000 ^v
	Residual	6.154	89	.069		
	Total	9.662	99			

a. Dependent Variable: IAFCOMPOSITE

b. Predictors: (Constant), TDEBT_TA, ACSIZE, ACHROVLAP, ACHRFEXP, IASOURCE, ACMEET, BINDP, LNMKTCAP, BODSIZE, LNINV

Model		Coefficients ^a		Standardized Coefficients Beta	t	Sig.
		Unstandardized Coefficients B	Std. Error			
1	(Constant)	-.899	.459		-1.960	.053
	ACHRFEXP	.120	.058	.182	2.082	.040
	ACHROVLA P	-.121	.036	-.312	-3.406	.001
	ACSIZE	.063	.041	.144	1.541	.127
	ACMEET	-.001	.017	-.007	-.071	.944
	BODSIZE	-.028	.016	-.171	-1.718	.089
	BINDP	.272	.271	.097	1.004	.318
	IASOURCE	.082	.093	.092	.883	.380
	LNINV	.011	.032	.051	.347	.729
	LNMKTCAP	.069	.037	.227	1.886	.063
	TDEBT TA	.004	.002	.230	2.491	.015

a. **Dependent Variable: IAFCOMPOSITE**

Dependent Variable	0	1
Selected Cases	100	10
Missing Cases	10	0
Total	110	10

```
LOGISTIC REGRESSION VARIABLES IAFSTANDARD
/METHOD=ENTER ACHRFEXP ACHROVLAP ACSIZE ACMEET BODSIZE BINDP IASOURCE LNINV
LNMKTCAP TDEBT TA
/PRINT=GOODFIT CI(95)
/CRITERIA=PIN(0.05) POUT(0.10) ITERATE(20) CUT(0.5).
```

Logistic Regression

Case Processing Summary	
Unweighted Cases~	

		N	Percent
Selected Cases	Included in Analysis	100	90.9
	Missing Cases	10	9.1
Total		110	100.0

Unselected Cases		0	.0
Total		110	100.0
a. If weight is in effect, see classification table for the total number of cases.			

Dependent Variable Encoding	
Original Value	Internal Value
0	0
1	1

Block 0: Beginning Block

Classification Table^{a b}

		Predicted			
		IAFSTANDARD	Percentage		
Observed		0	1	Correct	
Step 0	IAFSTANDARD 0	66	0	100.0	
	1	34	0	.0	
Overall Percentage				66.0	

- a. Constant is included in the model.
- b. The cut value is .500

Variables in the Equation

	B	S.E.	Wald	df	Sig.	Exp(B)
Step 0 Constant	-.663	.211	9.873	1	.002	.515

Variables not in the Equation			
	Score	df	Sig.
Step 0			

Variables	ACHRFEXP	.002	1	.863
	ACHROVLAP	10.500	1	.001
	ACSIZE	1.184	1	.276
	ACMEET	2.011	1	.156
	BODSIZE	.176	1	.675
	BINDP	5.510	1	.019
	IASOURCE	.214	1	.644
	LNINIV	5.685	1	.017
	LNMKTCAP	10.121	1	.001
	TDEBT_TA	.833	1	.361
Overall Statistics	24.745	10	.006	

Block 1: Method = Enter

Omnibus Tests of Model Coefficients

		Chi-square	df	Sig.
Step 1	Step	27.763	10	.002
	Block	27.763	10	.002
	Model	27.763	10	.002

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	100.444 ^a	.242	.336

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	9.108	8	.333

Step 1	1	10	9.534	0	.466	10
	2	9	9.117	1	.883	10
	3	8	8.716	2	1.284	10
	4	10	8.287	0	1.713	10
	5	6	7.362	4	2.638	10
	6	8	6.472	2	3.528	10
	7	3	5.786	7	4.214	10
	8	5	4.959	5	5.041	10
	9	4	3.937	6	6.063	10
	10	3	1.831	7	8.169	10

Contingency Table for Hosmer and Lemeshow Test

IAFSTANDARD = 0

IAFSTANDARD = 1

Observed Expected Observed Expected Total

Step 1	1	10	9.534	0	.466	10
	2	9	9.117	1	.883	10
	3	8	8.716	2	1.284	10
	4	10	8.287	0	1.713	10
	5	6	7.362	4	2.638	10
	6	8	6.472	2	3.528	10
	7	3	5.786	7	4.214	10
	8	5	4.959	5	5.041	10
	9	4	3.937	6	6.063	10
	10	3	1.831	7	8.169	10

Classification Table^a

Observed	IAFSTANDARD	Predicted	
		IAFSTANDARD	Percentage
Step 1	0	56	84.8
	1	20	41.2
Overall Percentage			70.0

a. The cut value is .500

Variables in the Equation								
	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
Step 1 ^a								
ACHRFEXP	-.047	.539	.008	1	.931	.954	.392	2.749
ACHROVLAP	-.983	.338	8.467	1	.004	.374	.193	.726
ACSIZE	.446	.378	1.397	1	.237	1.563	.745	3.277
ACMEET	-.052	.162	.104	1	.747	.949	.691	1.304
BODSIZE	-.249	.164	2.287	1	.130	.780	.565	1.076
BINDP	3.672	2.497	2.164	1	.141	39.347	.295	5247.638
IASOURCE	-.752	.857	.769	1	.381	.472	.088	2.531
LNINV	-.107	.288	.137	1	.711	.899	.511	1.581
LNMKTCAP	.900	.366	6.042	1	.014	2.460	1.200	5.043
TDEBT_TA	.034	.017	4.162	1	.041	1.034	1.001	1.069
Constant	-13.036	4.537	8.257	1	.004	.000		

a. Variable(s) entered on step 1: ACHRFEXP, ACHROVLAP, ACSIZE, ACMEET, BODSIZE, BINDP, IASOURCE, LNINV, LNMKTCAP, TDEBT_TA.

Source	Sum of Squares	Df	Mean Square	F	Sig.
Corrected Total	1.000	108	.009		
Corrected Model	.000	1	.000	.000	1.000
Corrected Total	1.000	108	.009		

LOGISTIC REGRESSION VARIABLES IAFCHARTER

/METHOD=ENTER ACHREXP ACHROVLAP ACSIZE ACMEET BODSIZE BINDP IASOURCE LNINV
 LNMKTCAP TDEBT TA
 /PRINT=GOODFIT CI(95)
 /CRITERIA=PIN(0.05) POUT(0.10) ITERATE(20) CUT(0.5).

Logistic Regression

Case Processing Summary			
Unweighted Cases ^a		N	Percent
Selected Cases	Included in Analysis	100	90.9
	Missing Cases	10	9.1
	Total	110	100.0
Unselected Cases		0	.0

Total		110	100.0
a. If weight is in effect, see classification table for the total number of cases.			
Dependent Variable Encoding			
Original Value	Internal Value		
.00000	0		
1.00000	1		

Block 0: Beginning Block

Classification Table ^{a,b}					
		Predicted		Percentage	
		0	1		
Observed		IAFCHARTER		Correct	
Step 0	IAFCHARTER	.00000	1.00000		
		56	0	100.0	
		44	0	.0	
Overall Percentage				56.0	

- a. Constant is included in the model.
 b. The cut value is .500

Variables in the Equation							
		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 0	Constant	-.241	.201	1.433	1	.231	.786

Variables not in the Equation				
	Variables	Score	df	Sig.
Step 0	ACHRFEXP	2.636	1	.092
	ACHROVLAP	6.567	1	.010
	ACSIZE	1.897	1	.168
	ACMEET	3.277	1	.070
	BODSIZE	.016	1	.899
	BINDP	1.780	1	.182
	IASOURCE	5.833	1	.016
	LNINV	7.684	1	.006
	LNMKTCAP	3.246	1	.072
	TDEBT_TA	3.445	1	.076
Overall Statistics		21.007	10	.021

Block 1: Method = Enter

Omnibus Tests of Model Coefficients				
		Chi-square	df	Sig.
Step 1	Step	23.986	10	.008
	Block	23.986	10	.008
	Model	23.986	10	.008

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	113.200 ^a	.213	.286

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

	IAFCHARTER = .00000		IAFCHARTER = 1.00000		Total
	Observed	Expected	Observed	Expected	
1	9	9.196	1	.804	10
2	7	8.208	3	1.792	10
3	6	7.457	4	2.543	10
4	9	6.679	1	3.321	10
5	7	6.095	3	3.905	10
6	5	5.313	5	4.687	10
7	4	4.703	6	5.297	10
8	7	4.044	3	5.956	10
9	2	2.814	8	7.186	10
10	0	1.493	10	8.507	10

Contingency Table for Hosmer and Lemeshow Test

IAFCHARTER = .00000 IAFCHARTER = 1.00000

Step 1	1	9	9.196	1	.804	10
	2	7	8.208	3	1.792	10
	3	6	7.457	4	2.543	10
Step 1	4	9	6.679	1	3.321	10
	5	7	6.095	3	3.905	10
	6	5	5.313	5	4.687	10
	7	4	4.703	6	5.297	10
	8	7	4.044	3	5.956	10
	9	2	2.814	8	7.186	10
	10	0	1.493	10	8.507	10
Hosmer and Lemeshow Test						
Sig. .200						

Classification Table^a

		Predicted		Percentage Correct
		IAFCHARTER .00000	1.00000	
Step 1	IAFCHARTER .00000	43	13	76.8
	1.00000	18	26	59.1
Overall Percentage				69.0

a. The cut value is .500

Step 1 ^a								
Variables in the Equation								
	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
ACHRFEXP	.911	.517	3.105	1	.078	2.487	.903	0.052
ACHROVLAP	-.639	.305	4.383	1	.036	.528	.290	.960
ACSIZE	.323	.349	.856	1	.355	1.382	.697	2.740
ACMEET	.217	.171	1.602	1	.206	1.242	.888	1.739
BODSIZE	-.174	.137	1.629	1	.202	.840	.643	1.098
BINDP	1.403	2.287	.376	1	.540	4.068	.046	359.803
IASOURCE	1.350	.931	2.104	1	.147	3.859	.622	23.927
LNINV	.078	.275	.081	1	.776	1.082	.631	1.855
LNMKTCAP	.028	.314	.008	1	.930	1.028	.556	1.901
TDEBT_TA	.030	.015	4.019	1	.045	1.030	1.001	1.061
Constant	-4.841	3.906	1.536	1	.215	.008		

a. Variable(s) entered on step 1: ACHRFEXP, ACHROVLAP, ACSIZE, ACMEET, BODSIZE, BINDP, IASOURCE, LNINV, LNMKTCAP, TDEBT_TA.

Logistic Regression

```
LOGISTIC REGRESSION VARIABLES IAFRISK
/METHOD=ENTER ACHRFEXP ACHROVLAP ACSIZE ACMEET BODSIZE BINDP IASOURCE LNINV
LNMTCAP TDEBT TA
/PRINT=GOODFIT CI(95)
/CRITERIA=PIN(0.05) POUT(0.10) ITERATE(20) CUT(0.5).
```

Logistic Regression

Case Processing Summary			
Unweighted Cases ^a		N	Percent
Selected Cases	Included in Analysis	100	90.9
	Missing Cases	10	9.1
	Total	110	100.0
Unselected Cases		0	.0
Total		110	100.0

a. If weight is in effect, see classification table for the total number of cases.

Dependent Variable Encoding				
		Original Value	Internal Value	
		.00000	0	
		1.00000	1	

Block 0: Beginning Block

Classification Table^{a,b}

		Predicted		
		IAFRISK		Percentage
Observed		.00000	1.00000	Correct
Step 0	IAFRISK .00000	0	26	.0
	1.00000	0	74	100.0
Overall Percentage				74.0

a. Constant is included in the model.

b. The cut value is .500

		Variables in the Equation				Exp(B)
		B	S.E.	Wald	df	
Step 0	Constant	1.046	.228	21.050	1	.000
Variables not in the Equation						
		Score		df	Sig.	
Step 0	Variables	ACHRFEXP	0.107	1	.010	
		ACHROVLAP	2.798	1	.094	
		ACSIZE	1.235	1	.266	
		ACMEET	.034	1	.854	
		BODSIZE	.385	1	.535	
		BINDP	.171	1	.679	
		IASOURCE	4.874	1	.027	
		LNIN V	6.086	1	.014	
		LN MKTCAP	4.000	1	.046	
		IDEBT_TA	.380	1	.538	
Overall Statistics		15.702		10	.108	

Block 1: Method = Enter			
Omnibus Tests of Model Coefficients			

		Chi-square	df	Sig.
Step 1	Step	16.716	10	.081
	Block	16.716	10	.081
	Model	16.716	10	.081

Model Summary

		Cox & Snell R Square	Nagelkerke R Square
Step	-2 Log likelihood		
1	97.896 ^a	.154	.226

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

	Observed		Expected		Total
	Observed	Expected	Observed	Expected	
Hosmer and Lemeshow Test					
Chi-square	df	Sig.			
9.797	8	.280			
Contingency Table for Hosmer and Lemeshow Test					
IAFRISK = .00000 IAFRISK = 1.00000					
	Observed	Expected	Observed	Expected	Total

Step 1	1	9	6.331	1	3.669	10
	2	3	4.692	7	5.308	10
	3	2	3.649	8	6.351	10
	4	2	2.894	8	7.106	10
	5	2	2.476	8	7.524	10
	6	3	1.973	7	8.027	10
	7	1	1.543	9	8.457	10
	8	2	1.134	8	8.816	10
	9	2	.810	8	9.190	10
	10	0	.447	10	9.553	10

Classification Table^a

		Predicted			
		IAFRISK		Percentage	
	Observed	.00000	1.00000	Correct	
Step 1	IAFRISK	.00000	10	16	38.5
		1.00000	4	70	94.6
	Overall Percentage				80.0

a. The cut value is .500

	B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
ACHRFEXP	1.124	.516	4.740	1	.029	3.077	1.119	8.463
ACHROVLAP	-.437	.375	1.357	1	.244	.646	.309	1.348
ACSIZE	.338	.428	.623	1	.430	1.402	.606	3.247
ACMEET	-.203	.174	1.361	1	.243	.816	.580	1.148
BODSIZE	-.045	.155	.084	1	.771	.956	.706	1.295
BINDP	-.378	2.718	.019	1	.890	.685	.003	141.224
IASOURCE	.669	.775	.745	1	.388	1.952	.427	8.920
LNINV	.132	.288	.210	1	.646	1.141	.649	2.008
LNMKTCAP	.449	.376	1.425	1	.233	1.567	.750	3.274
TDEBT_TA	.009	.016	.307	1	.580	1.009	.978	1.041
Constant	-7.981	5.008	2.540	1	.111	.000		

Step 1^a

ACHRFEXP	1.124	.516	4.740	1	.029	3.077	1.119	8.463
ACHROVLAP	-.437	.375	1.357	1	.244	.646	.309	1.348
ACSIZE	.338	.428	.623	1	.430	1.402	.606	3.247
ACMEET	-.203	.174	1.361	1	.243	.816	.580	1.148
BODSIZE	-.045	.155	.084	1	.771	.956	.706	1.295
BINDP	-.378	2.718	.019	1	.890	.685	.003	141.224
IASOURCE	.669	.775	.745	1	.388	1.952	.427	8.920
LNINV	.132	.288	.210	1	.646	1.141	.649	2.008
LNMKTCAP	.449	.376	1.425	1	.233	1.567	.750	3.274
TDEBT_TA	.009	.016	.307	1	.580	1.009	.978	1.041
Constant	-7.981	5.008	2.540	1	.111	.000		

a. Variable(s) entered on step 1: ACHRFEXP, ACHROVLAP, ACSIZE, ACMEET, BODSIZE, BINDP, IASOURCE, LNINV, LNMKTCAP, TDEBT_TA.

